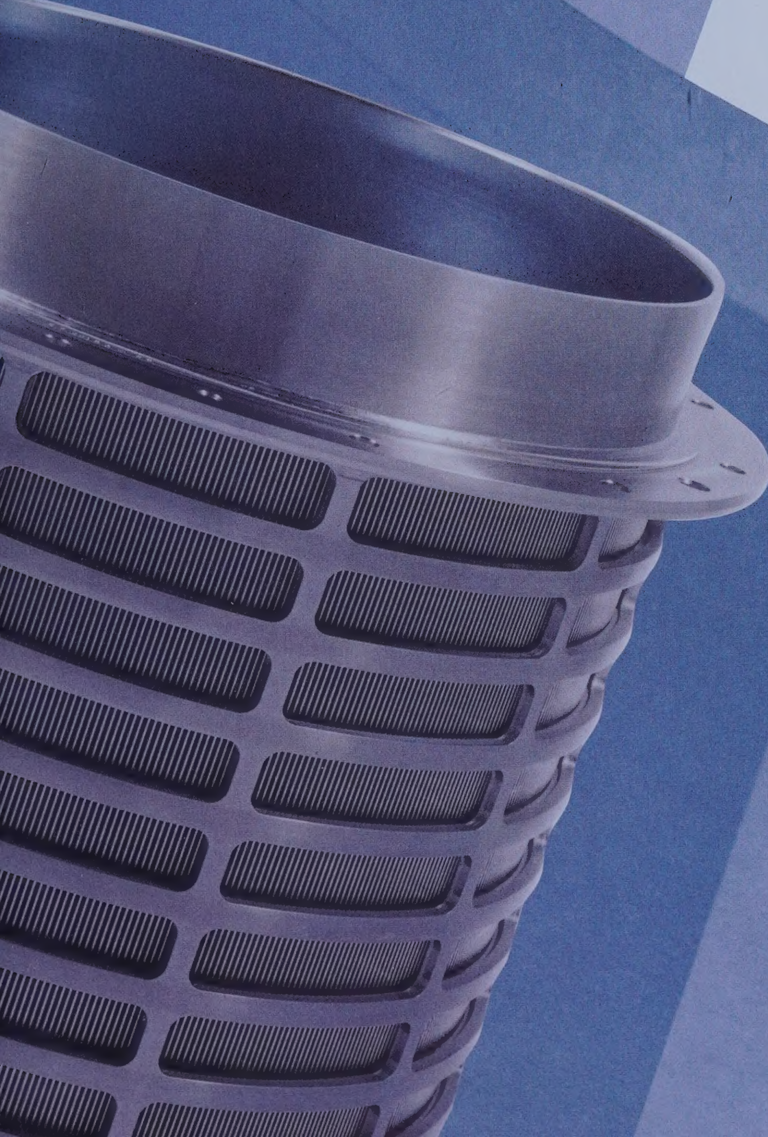
Annual Report 2002

Building on a Proven Strategy



aft

Advanced Fiber Technologies (AFT) Income Fund

AFT is one of the world's oldest producers of pulp screen components, having been in operation for 100 years.

AFT provides customized screening solutions to the pulp and paper industry based on its advanced screen component technology and its in-depth knowledge of pulp screening processes. Pulp screens are used in all pulp and paper mills around the world to remove contaminants from pulp.

AFT serves its customers from three manufacturing facilities that are strategically located in North America, Europe and Asia. The Company owns and operates two facilities in Lennoxville, Quebec, Canada, and in Varkaus, Finland, and also has a 35% interest in a third facility located in Inchon, South Korea. The Company has a total of 375 employees.

AFT has a wide selection of screening components, both cylinder and rotor types.

Profile and The World of AFT: Inside and Out
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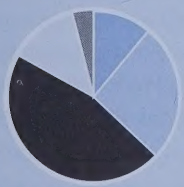
Definitions

The "Fund" means Advanced Fiber Technologies (AFT) Income Fund.
"AFT" refers to Advanced Fiber Technologies (AFT) Trust and its subsidiaries.

- Advanced Fiber Technologies (AFT) Income Fund completed its initial public offering and began trading on the TSX under the symbol AFT.UN on March 28, 2002.
- 13,083,333 units were issued for total proceeds of $130,833,330 ($10.00 per unit).
- The IPO net proceeds, along with the net proceeds from a $39,000,000 term loan, were used to acquire the former fiber screening business of CAE Inc. through AFT.
- Since March 28, 2002, the Fund declared monthly cash distributions for a total of $0.91 per unit, or $1.20 on an annualized basis.

Sales by Geographic Region

(% of total sales)



Canada	**11%**
U.S.	**26%**
Europe	**46%**
Asia	**13%**
Other	**4%**

AFT is the global leader in fiber screening solutions, with approximately 30% of the screen cylinder market.

Financial Summary

(thousands of dollars, except per unit amounts and number of units)	**For the nine months ended December 31, 2002***
Sales	**$54,472**
Earnings before interest, income taxes, depreciation and amortization (EBITDA)	**$15,435**
Less	
Interest expense	**1,708**
Income taxes current	**37**
Capital expenditures	**952**
Distributable cash	**$12,738**
Distributable cash per unit (in dollars)	**$0.97**
Distributions declared per unit (in dollars)	**$0.91**
Basic and diluted units outstanding	**13,083,333**

* Since the Fund commenced operations on March 28, 2002, no earnings or cash flow information has been presented for the period prior to this date.

Sales by Market Segment

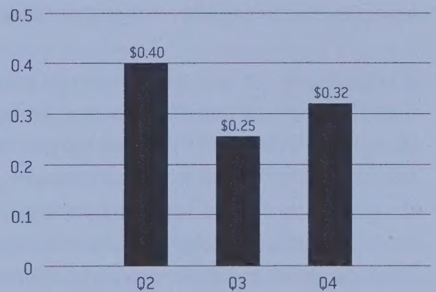
(% of total sales)

OEMs	**38%**
End-users	**62%**

AFT serves a broad customer base that includes virtually all the Original Equipment Manufacturers (OEMs) and 25% of the world's pulp and paper mills.

Distributable Cash per Unit

(in dollars)



During its first nine months of operation, the Fund generated a total of $0.97 in distributable cash per unit.

Distributions Declared per Unit

(in dollars)

Distributions declared	**$0.91**
Holdback	**$0.06**

Of this amount, $0.91 per unit was distributed and $0.06 per unit was held back mainly due to seasonal fluctuations in cash from operations.

The World of AFT

AFT designs, manufactures and distributes pulp screening components for use in pulp and paper mills. It is the world's leading provider of customized screening solutions based on its advanced technology and in-depth knowledge of pulp screening processes.

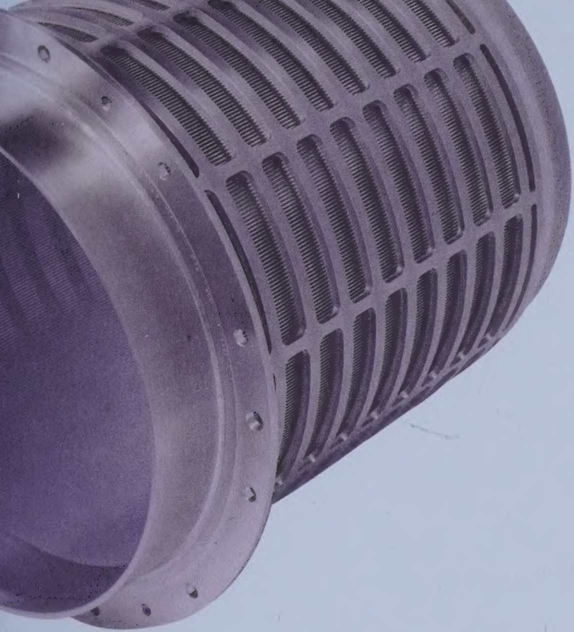
Inside

100 years of excellence

AFT is proud to celebrate 100 years of operations in 2003. This monument, shown at left being built by AFT employees, showcases the materials used in the Company's screening components.

The right product for the right job

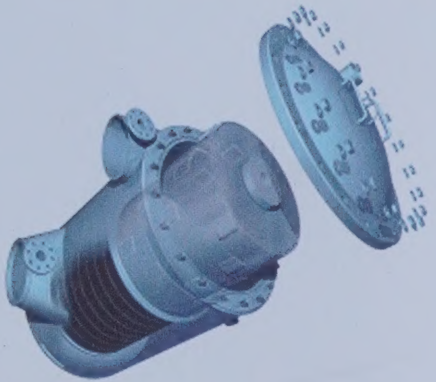
AFT offers a broad range of products, including drilled, slotted and wedgewire cylinders, rotors and non-cylindrical products. In order to meet every application performance requirement and optimize the screening process of its customers, AFT has developed proprietary simulation software called SimAudit™.



Helping our customers

AFT's business strategy is based on helping its customers reduce their total costs by offering differentiated technology and services. This enables them to optimize mill production, increase mill capacity, reduce fiber loss and lower energy consumption, which greatly enhances their reputation as a quality supplier.

& Out



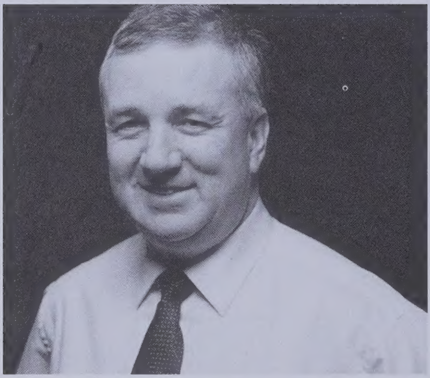
Technology achievements

AFT invests between 2% and 3% of its sales in research and development. It owns 61 patents in 14 countries and has 14 patents pending. The Company's Innovation Group is currently working on the development of the next-generation screening components, while its Customer Support Group is working on immediate solutions and creating opportunities for customers to improve their screening processes.

"Thanks to AFT's new rotor and technical enhancements developed in collaboration with their Customer Support Group, we not only improved our screening process but also realized a payback in approximately one month!"

Stéphanie Morin,
Technical Advisor
Norampac Inc.
Kingsey Falls Division

Building on a Proven Strategy



Roch Leblanc
President and Chief Executive Officer

Paul B. Spafford
Chairman of the Board

We are pleased to present you with this report on the first fiscal period of the Advanced Fiber Technologies (AFT) Income Fund.

Building on 100 years of history Fiscal 2002 marked the beginning of our new life as a stand-alone business when the Fund was launched on March 28, 2002. Following the completion of our Initial Public Offering that raised gross proceeds of $130.8 million, we acquired the fiber screening business from our former parent company, CAE Inc.

Our objectives in our first fiscal period were clear: to meet the expectations that we set during the marketing of our issue and to establish our financial credibility on which to build in the future. We believe that we have succeeded on both counts.

Backed by strong results During the nine-month period from March 28 to December 31, 2002, the Fund recorded sales of $54.5 million, resulting in earnings before interest, taxes, depreciation and amortization of $15.4 million. Cash available for distribution amounted to $12.7 million, or $0.97 per unit. Of this amount, the Fund distributed $11.9 million, or $0.91 per unit. This is completely in line with our stated policy to make monthly cash distributions of $0.10 per unit, for a total of $1.20 per unit on an annualized basis. Based on the stability of our revenue stream and the quality of our cash flows, we expect to maintain this level of payout to our Unitholders in 2003.

A strategy based on recurring revenues Key to our success is our focus on our maintenance and replacement sales to generate stable operating cash flows. AFT provides the pulp and paper industry with consumable items that our clients must purchase — on average — every other year. Our global approach to screening solutions and the unique features of our SimAudit™ software further stimulate demand for our products, by identifying areas for process enhancements and customer savings. Indeed, our customized pulp screening solutions can help our clients achieve substantial paybacks in a matter of months following installation.

We will continue to focus on our existing maintenance and replacement sales to generate stable operating cash flows and to increase our market share. We will also work to expand our core product offering through a combination of technology enhancements and new product development, while seeking potential acquisitions of products or businesses that are complementary and accretive to cash distributions.

To further assure the stability of our revenue stream, we focus on direct selling to pulp and paper mills — an integral part of our end-user strategy. There are approximately 4,000 mills worldwide, of which some 1,000 are served directly by AFT. By targeting this broad, diversified customer base, we are not tied to the fortunes of any single customer or geographic segment -- thus enabling us to perform well with consistency. In 2002, end-users accounted for 62% of our sales compared with just 5% in 1992.

Building on our leadership position. Our focus on total customer satisfaction has enabled us to establish our market leadership in pulp screening solutions. In 2002, we reinforced our sales structure by appointing new regional sales directors in the U.S. and in Europe as well as new sales representatives in the U.S. We also consolidated our customer service group and appointed new agents in Europe and in the U.S. — all with a view to stepping up our penetration of the end-user market. In 2003, we are implementing initiatives, such as our new integrated sales information system, which will further enhance our customers' ease of doing business with AFT. We are also focused on the development of new screening products, like our new foil rotor to be introduced in the first part of 2003. All these initiatives will result in higher mill productivity, greater cost savings and, ultimately, better profitability for our customers.

To build value for our Unitholders in the longer term, we are looking to acquire complementary products or businesses that expand our product offering and are accretive to cash distributions. This will enable us to leverage the knowledge and expertise in pulp screening technology that we have gained over the last 100 years, as well as add value to our established customer relationships.

Developing as an organization. The establishment of the Fund and our listing on the Toronto Stock Exchange has provided us with a new vehicle to take full advantage of internal and strategic growth opportunities. To assist us in our new role as stewards of a public organization, Mr. Normand Potvin joined the Fund as Chief Financial Officer and Secretary in April 2002. Also, from the beginning of our life as a public entity, we believe good corporate governance to be central to the operation of the Fund and have taken measures to align our practices with the TSX corporate governance guidelines.

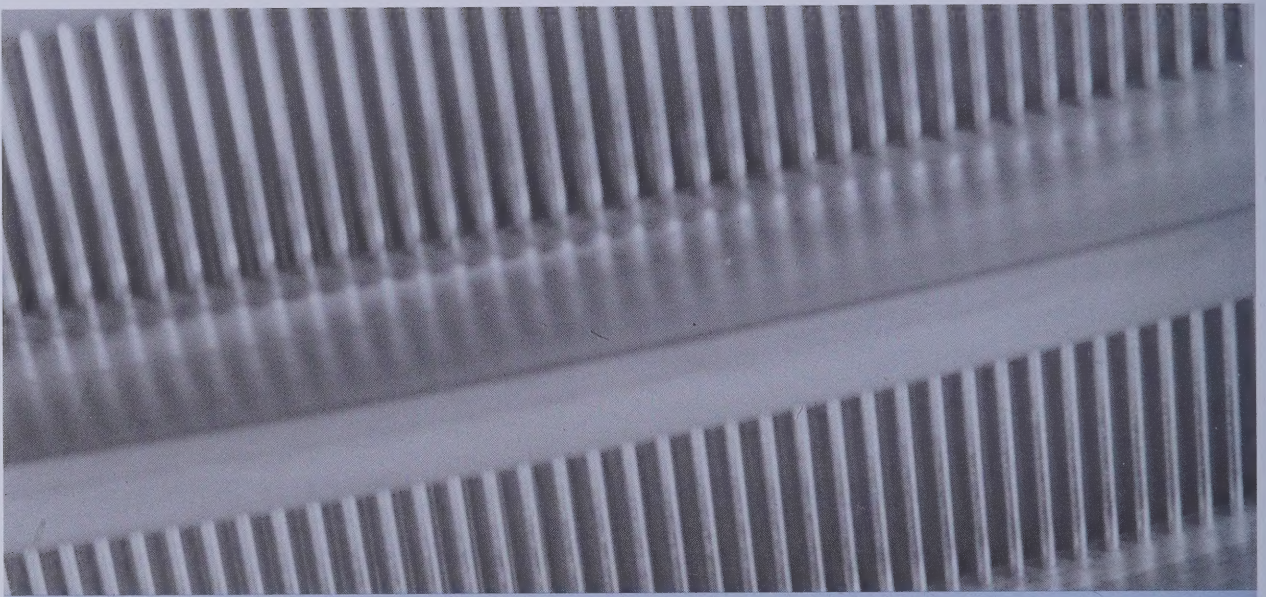
Fiscal 2002 opened the door to a new and exciting chapter in our long history. In 2003 and beyond, we will continue to build on our proven strategy to provide stable cash flows, while exercising prudent control over operating costs, capital expenditures and working capital. At the same time, we are committed to exploring all suitable opportunities that promise to increase distributions to our Unitholders.

We thank our employees and customers for their continued support and encouragement during our first critical months as a stand-alone public enterprise. We are proud of AFT and will continue to serve you, our Unitholders, to the best of our ability.

Roch Leblanc
President and Chief Executive Officer

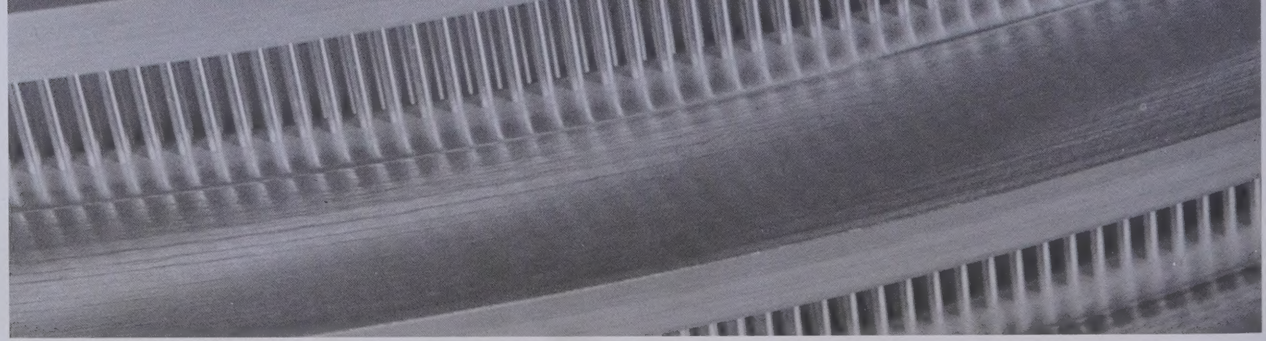
Paul B. Spafford
Chairman of the Board

February 17, 2003



Delivering Results

Our sales development strategy is to focus on end-users, as well as on prudently managing the factors within our control, such as operating costs, capital expenditures and the management of our working capital. This should enable us to sustain the current level of even monthly cash distributions and bring value to Unitholders.



Overview Advanced Fiber Technologies (AFT) Income Fund (the "Fund") is an unincorporated open-ended trust established under the Laws of the Province of Quebec. The Fund's income is derived from its fiber screening business, which it purchased through Advanced Fiber Technologies (AFT) Trust and its subsidiaries ("AFT") on March 28, 2002, from CAE Inc. As such, the following consolidated financial statements for the period ended December 31, 2002, reflect the results of operations for a period of approximately nine months and no comparative figures are presented.

The business of AFT is to provide customized screening solutions to pulp and paper producers based on its advanced screening component technology and its in-depth knowledge of pulp screening processes.

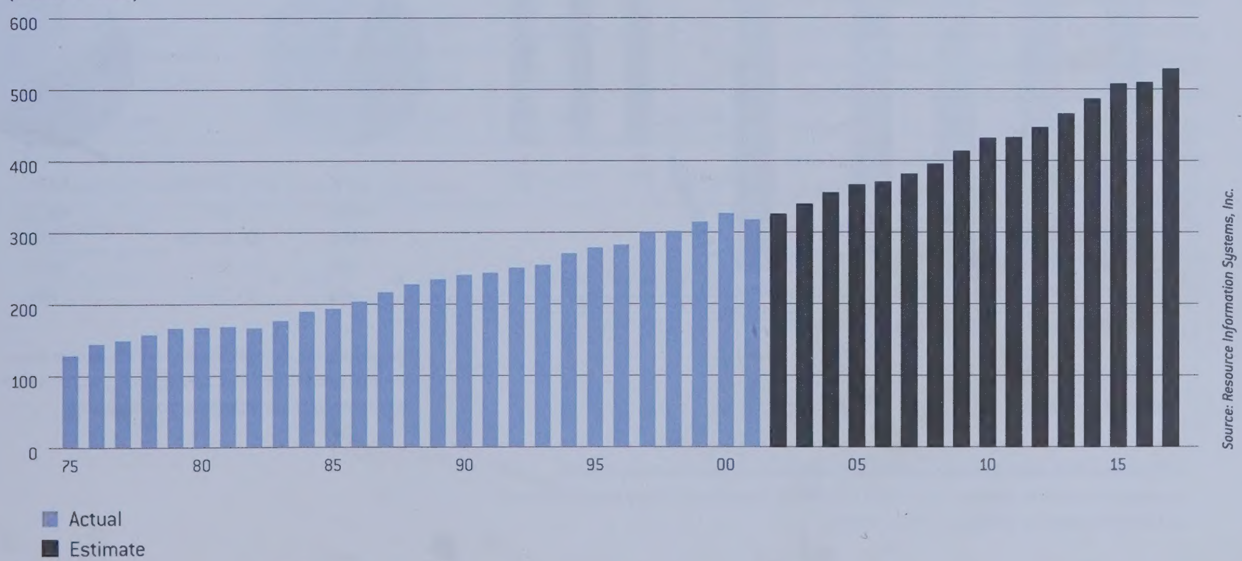
The screening technology provided by AFT is essential to the production of paper. Without screening components to remove contaminants from pulp, the resulting paper would not meet today's high industry standards for quality, strength and appearance. All screening components manufactured by AFT are consumable items that customers must purchase, on average, every other year.

AFT owns and operates two manufacturing facilities, one in Lennoxville, Quebec, Canada and one in Varkaus, Finland, and has a 35% interest in a facility located in Inchon, South Korea. These three facilities are strategically located in North America, Europe and Asia.

The operations of AFT, which mark their 100th anniversary in March 2003, have stayed at the forefront of pulp screening technology by investing continuously in the research and development of new screening solutions. AFT has 61 patents registered in 14 countries.

The strategy of AFT is to focus on the manufacture and sale of maintenance and replacement products to generate stable operating cash flows. The sale of consumable items is driven by global paper consumption, which is increasing at approximately 3% per year and therefore is less sensitive to the capital spending cycles that characterize the pulp and paper industry. AFT's strategic locations in North America, Europe and Asia enable it to respond to global demand. Consequently, shifts in levels of demand from one geographic region to another have little impact on total sales.

Global Paper Consumption
(millions of tonnes)



Maintenance and replacement sales are driven by global paper consumption that is increasing at approximately 3% per year.

AFT's client base comprises Original Equipment Manufacturers (OEMs) and end-users. While OEM customers continue to be important to AFT, our future growth will be driven by direct sales to pulp mills, or end-users. End-users purchase parts for maintenance and repairs that are renewed on a regular basis.

Our sales development strategy hinges on direct relationships with our customers. Instrumental to this relationship is AFT's unique SimAudit™ software, which represents the next generation in screen system optimization. SimAudit™ integrates simulation, process audits, mechanical audits, sizing and system design functions. It can quickly size and troubleshoot screen systems, evaluate "what if" scenarios, and achieve the full potential of the screen system. This technology optimizes mill production, increases mill capacity, reduces fiber loss and lowers energy consumption, enabling customers to make higher quality products more cost-effectively.

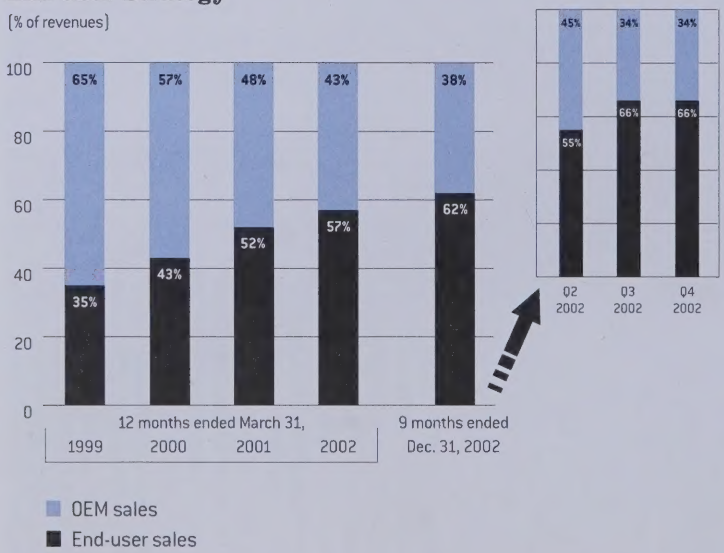
Operating Results For the nine-month period ended December 31, 2002, the Fund's revenues were $54,472,000. Of this amount, sales to end-users accounted for 62% of revenues. In 1999, sales to end-users represented 35% of revenues.

AFT serves customers in all key markets worldwide. For the nine-month period ended December 31, 2002, sales to Europe accounted for 46% of sales, the U.S. for 26%, Asia for 13%, Canada for 11% and the remainder of 4% to other countries throughout the world.

In 1999, AFT's principal markets by order of importance were the U.S., Europe, Canada and Asia.

End-user Strategy

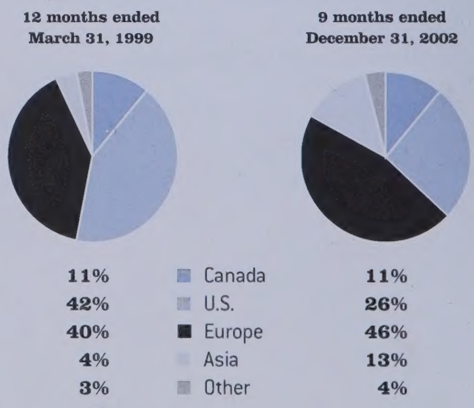
(% of revenues)



AFT focuses on maintenance and replacement sales to end-user customers in order to generate recurring revenues and stable cash flows. Sales to end-users have increased to 62% of revenues in 2002 from 35% in 1999.

Sales by Region

(% of revenues)



The geographic diversification of AFT's customer base has increased since 1999. Consequently, shifts in local paper demand have little impact on total sales.

As an Income Fund, the Fund's performance is measured mostly through distributable cash. Distributable cash is calculated from earnings before income taxes, depreciation and amortization (EBITDA), less net interest and financing costs, current taxes and maintenance capital expenditures. EBITDA is the best financial measure of the Fund's ability to make cash distributions to Unitholders. The only other sources of cash are long-term borrowing or the issue of new units from Treasury, which would be used only for accretive acquisitions or expansion projects. Working capital fluctuations would be financed from the Fund's revolving credit facility.

For the period ended December 31, 2002, EBITDA was $15,435,000, or 28.3% of sales. Interest and financing costs were $1,708,000. Current income taxes payable were $37,000, which was AFT's share of the income taxes payable in South Korea by Poong Nam Screen Co., Ltd. Maintenance capital expenditures amounted to $952,000. Distributable cash was $12,738,000, or $0.97 per unit. The following table shows the distributable cash generated by quarter in 2002 .

Financial Summary

(thousands of dollars, except per unit amounts and number of units)	Q2	Q3	Q4	9 months ended December 31, 2002
EBITDA	**$6,045**	**$4,215**	**$5,175**	**$15,435**
Less				
Interest expense	559	587	562	1,708
Income taxes current	67	(32)	2	37
Capital expenditures	183	338	431	952
Distributable cash	**$5,236**	**$3,322**	**$4,180**	**$12,738**
Distributable cash per unit (13,083,333 units)	$ 0.40	$ 0.25	$ 0.32	$ 0.97
Distributable cash declared per unit (13,083,333 units)	$ 0.31	$ 0.30	$ 0.30	$ 0.91

Distributions for the nine-month period were $11,946,000,or $0.913 per unit. The Fund's policy is to distribute $0.10 per unit per month. The first distribution covered the period of March 28th to April 30th and was $0.113. On an annualized basis, the distribution equals $1.20 per unit. Based on the issue price of $10.00 per unit, distributions to date represent an annual yield of 12%.

Total distributions of $11,946,000 exceeded net earnings for the nine-month period by $3,687,000, mostly attributable to the amortization of intangible assets. With the current level of investment of approximately 2.2% of its sales in research and development together with the resources allocated to increasing customer service and the global sales network, the Fund is confident that the value of those intangibles is being maintained. Therefore, we believe that the distribution in excess of the net earnings is not a depletion of the Fund's value.

The structure of the Fund allows income of the Fund to be taxed directly into the hands of the Unitholders. Since earnings from foreign subsidiaries are taxable in the foreign country, inter-company loans to wholly owned subsidiaries were put in place to leverage interest deductions in those countries. In addition, goodwill can be depreciated for tax purposes while being tested for impairment for accounting purposes. This should allow taxes in foreign countries for the wholly owned subsidiaries to be deferred for at least five years under the current structure and tax regulations.

During the period, the Fund completed a tax reorganization of its foreign subsidiaries in Finland. The main element of this tax reorganization was the liquidation of CAE Screenplates Oy into Advanced Fiber Technologies (AFT) Oy. Such liquidation allowed the revaluation of tangible and intangible assets that resulted in a decrease of future tax liability of approximately $1,031,000. This element does not impact cash in the short term, but should provide a benefit in the long term.

On November 4, 2002, the Fund signed an amendment to the Master Sales and Purchase Agreement governing the acquisition of its screening business from CAE. This amendment resulted in the reimbursement of income taxes payable on taxable earnings of CAE Screenplates Oy. The amount of the reimbursement is estimated at $1,144,000 and is shown as a reduction of income tax expense.

The Fund's balance sheet was strong at year end with a working capital ratio of 2.4, cash on hand of $3.5 million and a $10-million revolving credit facility that was not utilized.

Risks and Uncertainties The Fund's operations are subject to a number of uncertainties and risks related to the business and the industry.

These uncertainties and risks include, but are not limited to: the dependence on certain key suppliers, competitive pressures and changes in market activity, risks associated with international operations and foreign exchange, legal proceedings, environmental, health and safety and other regulatory requirements.

Outlook In its first nine months of operations, the Fund was able to meet the financial targets presented in its prospectus dated March 20, 2002. To ensure its continued success, the Fund will continue to apply the same strategy for growth in 2003.

The outlook for the first quarter of 2003 is for continued stable earnings and cash flows. A general softness in market conditions is forecast to continue until the second semester of 2003, at which time an improvement in the U.S. economy is expected to stimulate paper demand and increase the need for pulp.

AFT's strategy, focused on consistent maintenance and replacement sales, as well as its broad, well-diversified international customer base, provides stable cash flows. This strategy, together with the Fund's focus on prudently managing the factors within its control, such as operating costs, capital expenditures and the management of its working capital, should enable it to sustain the level of even monthly cash distributions established in its first nine months of operations.

Management's Statement of Responsibility

The financial statements of the Fund and the other financial information included in this annual report are the responsibility of management and have been examined and approved by its Trustees. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and include some amounts that are based on management's best estimates using careful judgement. The selection of accounting principles and methods is management's responsibility.

The Fund maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. Management recognizes its responsibility for conducting the Fund's affairs to comply with the requirements of applicable laws and established financial standards of conduct in its activities.

The Trustees supervise the financial statements and other financial information through its Audit Committee, which consists solely of outside unrelated trustees.

This committee's role is to examine the financial statements and recommend that the Trustees approve them, to examine the internal control and information protection systems and all other matters relating to the Fund's accounting and finances. In order to do so, the Audit Committee meets periodically with the external auditors, either with or without the Fund's management, to review their audit plan and discuss the results of their examinations.

The financial statements have been audited by Samson Bélair/Deloitte & Touche, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the Unitholders. The external auditors have full and free access to the Audit Committee.

Roch Leblanc
President and Chief Executive Officer

Normand Potvin
Chief Financial Officer and
Secretary

Lennoxville, Quebec
February 17, 2003

Auditors' Report

To the Unitholders of
Advanced Fiber Technologies (AFT) Income Fund

We have audited the consolidated balance sheet of Advanced Fiber Technologies (AFT) Income Fund as at December 31, 2002 and the consolidated statements of earnings, deficit and cash flows for the period from March 28, 2002 to December 31, 2002. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2002 and the result of its operations and its cash flows for the period from March 28, 2002 to December 31, 2002 in accordance with Canadian generally accepted accounting principles.

Samson Bélair/Deloitte & Touche

Samson Bélair/Deloitte & Touche
Chartered Accountants

Sherbrooke, Quebec
January 31, 2003

Consolidated Statement of Earnings

(in thousands of dollars except units and per unit amounts)	For the period from March 28, 2002 to December 31, 2002
Sales	**$54,472**
Cost of sales, selling and administrative expenses	**39,037**
Earnings before interest, income taxes, depreciation and amortization	**15,435**
Interest expense	**1,708**
Amortization of deferred financing fees	**246**
Depreciation of property, plant and equipment	**2,871**
Amortization of intangible assets	**3,481**
Earnings before income taxes	**7,129**
Provision for income taxes (note 11)	
Current	**37**
Future	**(1,167)**
	(1,130)
Net earnings	**$ 8,259**
Basic and diluted weighted average number of units (in thousands of units)	**13,083**
Basic and diluted earnings per unit (note 14)	**$ 0.63**

Consolidated Statement of Deficit

(in thousands of dollars)	For the period from March 28, 2002 to December 31, 2002
Balance, beginning of period	**$ –**
Net earnings	**8,259**
Distributions declared	**(11,946)**
Balance, end of period	**$ (3,687)**

(in thousands of dollars)	As at December 31, 2002
Assets	
Current assets	
Cash and cash equivalents	$ 3,454
Accounts receivable	13,365
Inventories (note 5)	9,307
Prepaid expenses	968
	27,094
Property, plant and equipment (note 6)	31,183
Deferred financing fees (note 7)	740
Intangible assets (note 8)	47,917
Goodwill	63,982
	$170,916
Liabilities and Unitholders' Equity	
Current liabilities	
Bank loan (note 9)	$ 173
Accounts payable and accrued liabilities	9,677
Cash distributions payable	1,308
Income taxes payable	37
Current portion of long-term obligations (note 10)	78
	11,273
Long-term obligations (note 10)	39,614
Future income taxes (note 11)	556
	51,443
Unitholders' equity (note 12)	
Units	119,715
Cumulative foreign currency translation adjustment	3,445
Deficit	(3,687)
	119,473
	$170,916

Approved on behalf of the Trustees

Paul B. Spafford
Trustee

François R. Roy
Trustee

Consolidated Statement of Cash Flows

(in thousands of dollars)	For the period from March 28, 2002 to December 31, 2002
Operating activities	
Net earnings	$ 8,259
Items not affecting cash	
Depreciation of property, plant and equipment	2,871
Amortization of intangible assets and deferred financing fees	3,727
Provision for future income taxes	(1,167)
Changes in non-cash operating working capital items (note 15)	415
	14,105
Investing activities	
Acquisition of fiber screening business of CAE, net of cash and cash equivalents acquired (note 3)	(156,137)
Additions to property, plant and equipment	(952)
	(157,089)
Financing activities	
Issuance of trust units	130,833
Cost related to issuing units	(11,118)
Distributions to Unitholders	(10,638)
Issuance of term loan	39,000
Repayment of long-term obligations	(145)
Deferred financing fees	(986)
Changes in bank loan	(508)
	146,438
Increase in cash and cash equivalents for the period	3,454
Cash and cash equivalents, beginning of period	–
Cash and cash equivalents, end of period	$ 3,454

For the period from March 28, 2002 to December 31, 2002

(All figures in tables expressed in thousands of dollars, unless otherwise noted)

1 Organization and nature of business

Advanced Fiber Technologies (AFT) Income Fund (the "Fund") is an unincorporated open-ended trust established by a trust agreement ("Trust Agreement") dated February 12, 2002, as amended and restated on March 19, 2002, under the Laws of the Province of Quebec. On March 28, 2002, the Fund completed an initial public offering ("Public Offering") of 13,083,333 units of the Fund at a price of $10.00 per unit. The Fund was created to acquire, indirectly through wholly-owned Advanced Fiber Technologies (AFT) Trust ("AFT") the fiber screening business of CAE Inc. ("CAE"), consisting of a facility located in Lennoxville, Quebec and related operations, all of the issued and outstanding shares of CAE's wholly-owned subsidiary, CAE Screenplates Oy, which operates a facility located in Varkaus, Finland and CAE's 35% interest in Poong Nam Screen Co., Ltd. ("Poong Nam"), which operates a facility located in Inchon, South Korea. Each Unitholder participates on a pro rata basis in any distribution from the Fund. Income tax obligations related to the distributions of the Fund are the obligations of the Unitholders.

The business of AFT is to provide customized screening solutions to pulp and paper producers based on its advanced screening component technology and its in-depth knowledge of pulp screening processes. AFT designs, manufactures and distributes pulp screening components for use in pulp and paper mills.

2 Summary of significant accounting policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant policies:

Basis of consolidation

These consolidated financial statements include the accounts of the Fund and its directly and indirectly wholly-owned subsidiaries from their dates of acquisition. The principal wholly-owned subsidiaries are: Advanced Fiber Technologies (AFT) Trust, Advanced Fiber Technologies (AFT) Inc., Advanced Fiber Technologies (AFT) Oy, CAE Screenplates Oy and Varkauden Metallikiinteistöt Oy.

In addition, these consolidated financial statements include 35% of the assets, liabilities, revenues and expenses of Poong Nam (a corporation incorporated under the laws of the Republic of South Korea), representing the Fund's indirectly owned joint control interest in this corporation, using the proportionate consolidation method from the date of acquisition.

Since the Fund commenced active operations on March 28, 2002, no earnings or cash flow information has been presented for the period prior to such date.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the year. Actual results could differ from those estimates.

Foreign currency translation

Foreign operations

The Fund's foreign operations are determined to be of a self-sustaining nature. Accordingly, the accounts of the Fund's foreign operations are translated into Canadian dollars using the current rate method. Under this method, assets and liabilities are translated at the exchange rate in effect at the end of the year, and revenues and expenses are translated at the average exchange rate for the year. Gains and losses on translation of these foreign operations into Canadian dollars are included in the foreign currency cumulative translation adjustment in the Unitholders' equity. Changes in the foreign currency translation adjustment result solely from the application of this translation method.

Foreign currency transactions

Transactions denominated in currencies other than the functional currency are translated into the functional currency using the temporal method. Under this method, monetary assets and liabilities are translated at the exchange rate in effect at the end of the year, and non-monetary assets and liabilities at the exchange rates prevailing at the transaction dates. Revenues and expenses are translated at the exchange rates prevailing at the dates of the respective transactions. Gains and losses arising from translation are included in the Consolidated Statement of Earnings.

2 Summary of significant accounting policies (cont'd)

Forward exchange contracts

The Fund enters into forward exchange contracts to hedge its exposure to exchange rate fluctuations on cash flows related to anticipated future revenue streams denominated in foreign currencies. Unrealized gains and losses on these non-speculative forward exchange contracts are deferred in the consolidated financial statements until the underlying anticipated transactions are recorded in earnings. At such time, any gains or losses are recorded in earnings as an adjustment to the underlying transaction. Accordingly, cash flows resulting from forward exchange contract settlements are classified as cash provided by operations, as are the corresponding cash flows being hedged.

Revenue recognition

Revenue from product sales is recognized when the title and risk of loss have been transferred to the customer, and collection of the resulting receivable is reasonably assured.

Future income taxes

Future income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantially enacted tax rates anticipated to apply in the years that the temporary differences are expected to reverse.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and balances with banks, net of bank overdrafts, as well as all highly liquid investments with original terms to maturity of three months or less.

Inventories

Inventories of work in progress and finished goods are valued at the lower of average production cost and net realizable value. Inventories of raw materials and supplies are valued at the lower of cost and replacement cost. The cost of raw materials and supplies is determined on the average cost basis.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of these assets as follows:

Buildings	40 years
Machinery and equipment and furniture and fixtures	3 to 10 years

Deferred financing fees

Deferred financing fees are amortized on a straight-line basis over the original three-year term of the related debt.

Intangible assets

Intangible assets, which consist primarily of patents and licenses, unpatented technology and know-how and customer relationships are recorded at cost less accumulated amortization. Amortization is provided for on a straight-line basis over the estimated useful lives of the assets principally but not exceeding the following number of years:

Patents, licenses, unpatented technology and know-how	17 years
Customer relationships	20 years

Goodwill

Goodwill, which represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business acquisition (Note 3), is accounted for using the non-amortization approach. Accordingly, goodwill is carried at cost net of accumulated impairment losses, if any.

Goodwill is tested for impairment on an annual basis and when an event or circumstance occurs which more likely than not reduces the fair value of goodwill below its carrying amount. The amount of impairment loss, if any, is the excess of the carrying value of the goodwill over its estimated fair value. Impairment losses are charged to earnings in the year in which the impairment is identified.

2 Summary of significant accounting policies (cont'd)

Pension benefits

The Fund accrues its obligation under employee pension benefit plans and the related costs, net of plan assets. The cost of the pension benefits earned by employees is actuarially determined using the projected benefit method pro- rated on service, expected plan investment performance, salary escalation, and retirement ages of employees.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value. The excess of the net actuarial gain or loss over 10% of the greater of the accrued benefit obligation and the fair value of plan assets is amortized over the average remaining service year of active employees.

3 Acquisition

On March 28, 2002, the Fund acquired the assets and assumed the liabilities of the CAE fiber screening business (Note 1). The acquisition has been accounted for using the purchase method with the results of operations included in earnings from the date of acquisition. On November 4, 2002, the Fund signed an amendment to the Master Sales and Purchase Agreement with CAE for the purchase of the CAE fiber screening business. This amendment resulted in an adjustment to the purchase price and the reimbursement by CAE of additional expenses related to the Public Offering and to the acquisition of the CAE fiber screening business. The allocation of the purchase price is summarized as follows:

Cash and cash equivalents	$ 1,591
Accounts receivable	11,324
Inventories	9,324
Prepaid expenses	823
Property, plant and equipment	31,351
Intangible assets	50,804
Goodwill	63,982
Bank loan	(681)
Accounts payable and accrued liabilities	(7,949)
Income taxes payable	(455)
Long-term obligations	(663)
Future income taxes	(1,723)
	$157,728
Consideration paid in cash	$157,728

The acquisition was paid from the net proceeds of the Public Offering ($119,715,340) plus the net proceeds of the term loan ($38,013,000).

4 Joint venture

The Fund conducts some of its business through Poong Nam, an incorporated joint venture in which it holds a 35% interest. The following amounts represent AFT's proportionate interest in Poong Nam:

Current assets	$ 1,939
Long-term assets	2,216
	$ 4,155
Current liabilities	$ 524
Long-term obligations	342
Equity	3,289
	$ 4,155
Sales	$ 2,183
Net earnings	$ 180
Cash flows applied to operating activities	$ (547)
Cash flows applied to investing activities	$ (405)
Cash flows from financing activities	$ 43

5 Inventories

Raw materials and supplies	$ 6,693
Work in progress and finished goods	2,614
	$ 9,307

6 Property, plant and equipment

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 724	$ –	$ 724
Buildings	14,417	245	14,172
Machinery and equipment and furniture and fixtures	19,030	2,743	16,287
	$34,171	$2,988	$31,183

7 Deferred financing fees

Deferred financing fees	$ 986
Accumulated amortization	(246)
	$ 740

8 Intangible assets

Patents and licenses, unpatented technology and know-how, net of accumulated amortization of $1,766	$23,778
Customer relationships, net of accumulated amortization of $1,620	24,139
	$47,917

9 Bank loan

The Fund has a revolving credit facility of up to $10,000,000 that can be used for general working capital purposes. This revolving facility is renewable annually and the first renewal date is March 2003. Advances under this credit facility can be obtained in Canadian dollars by way of CDN Prime Rate Loans or Bankers' Acceptances and in US dollars by way of US Base Rate Loans or Libor Loans. The rate of interest on this facility is determined using a formula stipulated in the Credit Facility Agreement. As at December 31, 2002, the applicable margin for Prime Rate Loans and US Base Rate Loans was 1.875%, the applicable margin for Libor Loans and Acceptance Rate was 2.875%. As at December 31, 2002, the full amount of the facility was available. The facility is collateralized as part of the Term Loan (Note 10).

The Fund has a prorated share of Poong Nam trade and revolving line of credit of up to $992,000 (745 million won) that can be used for working capital. The line of credit bears interest at 6.5% and is collateralized by land and buildings. As at December 31, 2002, $173,000 (130 million won) of the line of credit was used.

In addition, the Fund has a prorated share of Poong Nam overdraft agreements of $42,000 (32 million won), a promissory note discount facility of $551,000 (414 million won) and a $105,000 (79 million won) credit line for payment guarantee for purchasing materials that were available as at December 31, 2002 and not utilized.

10 Long-term obligations

The Fund has obtained a term loan in the amount of $39,000,000, which matures on March 28, 2005. As at December 31, 2002, all borrowings under the term loan were made through Bankers' Acceptances. Canadian borrowings can be made by way of CDN Prime Rate loans or Bankers' Acceptances. For the period ended December 31, 2002, the term loan bore interest at 5.37% per annum. A general security agreement relating to all assets of the Fund has been provided as collateral.

The Fund also has two loans outstanding with the Government of Finland, which mature in 2003 and 2006, respectively. The loans accrue interest at the Bank of Finland's prime rate less 3% with a minimum interest rate of 1%. At December 31, 2002, the effective rate was 1%.

10 Long-term obligations (cont'd)

The Fund also assumes a prorated share of the Poong Nam long-term obligations of $342,000 (257 million won) as at December 31, 2002. The maturity date of these obligations is 2007 and thereafter, and they bear interest at rates between 3% and 6.25%.

Term loan	**$39,000**
Finland loan (€ 215,000)	**310**
Poong Nam loans	**342**
Liability for pension-acquired benefits (note 17)	**40**
	$39,692
Less current portion	**78**
	$39,614

Annual principal repayments required over the next years are as follows:

2003	**$ 78**
2004	**$ 78**
2005	**$39,078**
2006	**$ 78**
2007 and thereafter	**$ 302**

Interest and fees on long-term obligations were $1,708,000 for the nine-month period ended December 31, 2002.

The credit agreement contains financial covenants such as current ratio, interest coverage ratio and funded debt to EBITDA. The Fund has satisfied these requirements throughout the period.

11 Income taxes

The provision for income taxes in the consolidated statement of earnings represents an effective rate of (15.9%), which differs from the Canadian statutory rate of 35.5%. The differences are as follows:

Income tax expense at Canadian statutory rate	**$ 2,531**
Decrease resulting from:	
Income of trust taxed directly to Unitholders	**(2,047)**
Income taxes reimbursed by CAE	**(1,144)**
Difference between Canadian statutory rates and those applicable to foreign subsidiaries	**(228)**
Others	**(242)**
	$(1,130)

Future income tax balance is summarized as follows:	
Future tax liability – differences between net book value and tax value of tangible and intangible assets	**$ 556**

During the period, the Fund completed a tax reorganization of its foreign subsidiaries in Finland. The main element of this tax reorganization was the liquidation of CAE Screenplates Oy into Advanced Fiber Technologies (AFT) Oy. Such liquidation allowed the revaluation of tangible and intangible assets which resulted in a decrease of future tax liability of approximately $1,031,000.

On November 4, 2002, the Fund signed an amendment to the Master Sales and Purchase Agreement with CAE for the purchase of the CAE fiber screening business (Note 1). This amendment resulted in the reimbursement of income taxes payable on the taxable earnings of CAE Screenplates Oy. The amount of the reimbursement is estimated at $1,144,000 and is shown as a reduction of income taxes.

12

The Trust Agreement provides that an unlimited number of units may be issued. Each unit will be transferable and will represent a Unitholder's proportionate undivided ownership interest in the Fund. All units of the Fund are of the same class with equal rights and privileges. All units are not subject to future calls or assessments. No Unitholder has or is deemed to have any right of ownership in any of the assets of the Fund. Each unit confers the right to one vote at any meeting of Unitholders and to participate equally and ratably in any distributions by the Fund and, in the event of any required distribution of all property of the Fund, in the net assets of the Fund remaining after satisfaction of all liabilities.

The units have no conversion, retraction, redemption or pre-emptive rights except that units are redeemable at any time at the option of the holder at amounts related to market prices at that time, subject to a maximum of $50,000 in cash redemptions by the Fund in any one month. This limitation may be waived at the discretion of the Trustees of the Fund. If a Unitholder is not entitled to receive cash upon the redemption of units as a result of the foregoing limitation, then the redemption price for such units shall be paid by way of distribution in kind of a pro rata number of AFT notes.

On March 28, 2002, the Fund completed a Public Offering of 13,083,333 units of the Fund at a price of $10.00 per unit. On November 4, 2002, an amendment to the Master Sales and Purchase Agreement between CAE and AFT resulted in additional expenses related to the offering being reimbursed by CAE. The net proceeds to the Fund therefore amounted to $119,715,340, net of underwriting commissions and other expenses of the offering in the amount of $11,117,990.

13

According to the unit option plan to be ratified at the Unitholders' Annual General Meeting on April 2, 2003, the Fund may grant options to a maximum of 654,166 units. As at December 31, 2002, there were 556,043 options outstanding, all subject to Unitholders' approval. The exercise price of the unit options equals the closing market price of the Fund's units on the last business day preceding the grant date. The unit options will vest as to one fifth of the units granted on each of the first, second, third, fourth and fifth anniversaries of the grant and expire on the tenth anniversary date of the grant date. No options are exercisable as at December 31, 2002.

The 556,043 options issued and outstanding were all granted on August 6, 2002, and have an exercise price of $10.00.

14

Basic earnings per unit are calculated using a total of 13,083,333 units outstanding. The basic earnings per unit for the period ended December 31, 2002, are $0.63 per unit. Diluted earnings per unit is also calculated using a total of 13,083,333 units outstanding since the options granted are all subject to Unitholders' approval. Assuming such approval is received, the diluted earnings per unit for the period ended December 31, 2002, would be $0.63 per unit.

15

Changes in non-cash working capital items	
Accounts receivable	$(1,005)
Inventories	876
Prepaid expenses	(42)
Accounts payable and accrued liabilities	(304)
Cash distributions payable	1,308
Income taxes payable	(418)
	$ 415
Interest and income taxes paid	
Interest paid	$ 1,708
Income taxes paid	$ 37

16 Segmented information

Management analyses performance of the Fund under one reportable segment, that being the design, manufacture and distribution of pulp screening components. Geographic information is detailed as follows:

	Sales	Property, plant and equipment, intangible assets and goodwill
Canada	**$ 5,827**	**$ 79,935**
United States	**14,456**	**–**
South America	**1,116**	**–**
Europe	**25,217**	**60,931**
Asia	**6,922**	**2,216**
Other foreign countries	**934**	**–**
	$54,472	**$143,082**

Sales have been allocated to geographic regions based on the region in which the customer is domiciled.

17 Pensions

The Fund has defined benefit plans for some employees. These plans provide benefits based on length of service and final average earnings. The Fund has an obligation to ensure that there are sufficient funds in the plans to pay the benefits earned.

Contributions reflect actuarial assumptions concerning future investment returns, salary projections and future benefits. Plan assets are represented primarily by Canadian and foreign equities and government and corporate bonds.

The changes in the pension obligations and in the fair value of assets and the funded status of the defined plans are as follows:

As at December 31, 2002

Change in pension obligations	
Pension obligation, beginning of period	**$ 2,362**
Current service cost	**150**
Interest cost	**122**
Pension obligation, end of period	**$ 2,634**
Change in fair value of plan assets	
Fair value of plan assets, beginning of period	**$ 2,087**
Return on plan assets	**(146)**
Employer contributions	**91**
Employee contributions	**42**
Fair value of plan assets, end of period	**$ 2,074**
Funded status-plan deficits	**$ (559)**
Unrecognized net actuarial loss	**259**
Unrecognized transitional balance	**260**
Accrued pension liability	**$ (40)**

17 Pensions (cont'd)

The significant actuarial assumptions adopted in measuring the Fund's accrued benefit obligations are as follows:

Return on plan assets	**7.0%**
Discount rate for pension benefits obligations	**6.5%**
Compensation rate increase	**3.5% to 4.0%**

The net pension expense for the period ended December 31, 2002, included the following components:

Current service cost	**$ 108**
Interest costs on projected pension obligations	**123**
Expected return on plan assets	**(113)**
Amortization of transitional obligation	**14**
Net pension expense	**$ 132**

18 Financial instruments

Currency risks

The Fund has purchased a series of forward exchange contracts to sell US dollars and euros for Canadian dollars at various future dates. As at December 31, 2002, the Fund had a total of US$14,600,000 and € 7,400,000 in forward contracts maturing within the next 18 months. The exchange rates on these contracts ranged from C$1.5444/US$1.00 to C$1.6168/US$1.00 and from C$1.5396/€1.00 to C$1.6372/€1.00. As at December 31, 2002, the amount of unrealized loss on these forward exchange contracts was approximately C$526,000.

Credit and concentration risk

Financial instruments, which potentially subject the Fund to credit risk, consist principally of cash and cash equivalents, accounts receivable and forward exchange contracts. The Fund's cash and cash equivalents and forward exchange contracts are maintained with major financial institutions; therefore, the Fund considers the risk of non-performance on these instruments to be remote.

Substantially all of the Fund's customers operate in the pulp and paper industry; therefore, the ability of the Fund's customers to honour their debts is dependent on the general economic strength of the pulp and paper industry. Generally, the Fund does not require collateral or other security from customers for trade accounts receivable; however, credit is extended to customers following an evaluation of credit worthiness. In order to compensate for the above-noted risk, the Fund performs ongoing credit reviews of all its customers and establishes an allowance for doubtful accounts when collection is determined to be doubtful. In addition, the Fund has entered into an agreement with the Export Development Corporation wherein the latter has insured the risk of loss in case of bankruptcy for up to 90% of Lennoxville, Québec accounts receivable from certain designated customers, to a maximum of $1,500,000 for Canadian customers and $5,000,000 for foreign customers in any given year. As at December 31, 2002, accounts receivables totalling approximately $4,309,000 were insured under this agreement.

Fair value

Cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities, cash distributions payable are short-term financial instruments whose fair values approximate their carrying values.

The fair value of long-term obligations was determined by discounting future cash flows using interest rates which the Fund could obtain for loans with similar terms, conditions and maturities. As at December 31, 2002, there was no material difference between the carrying value and the fair value of long-term obligations.

19 Contingencies

Environmental matters

The Fund is subject to a wide range of governmental requirements relating to employee health and safety and to the handling of and emission into the environment of various substances used in its operations. The Fund is subject to certain provisions of environmental laws, particularly in Canada, governing the emission of contaminants into the environment and the clean-up of soil and groundwater contaminations. Such provisions impose liability for the costs of investigating and remedying releases of hazardous materials at currently operated sites of the Fund. In certain circumstances, this liability may also include the cost of cleaning up historical contamination, whether or not caused by the Fund.

The Fund's policy is to establish financial provisions to cover environmental liabilities where they are probable and can be reasonably estimated. The Fund has determined, based on the best available information, that no such provisions are currently required. Although the Fund believes that there are currently no known material environmental liabilities, there can be no assurance that environmental liabilities will not arise in the future or that any such liabilities will not have a material adverse effect on the Fund's consolidated financial position, results of operations or cash flows. An indemnity, unlimited as to duration or amount and subject to certain conditions, is provided by CAE with respect to any remediation costs required by law or pursuant to an order of any governmental entity incurred by the Fund and arising from the pre-closing contamination of the Lennoxville, Quebec, facility.

From left to right: François R. Roy, Roch Leblanc, Tom Battershill, Paul B. Spafford and Jim Rogers

Trustees

Paul B. Spafford [*1]
Chairman of the Board, Advanced Fiber Technologies (AFT) Income Fund;
Vice Chairman and Managing Director, CIBC World Markets Inc., Toronto, Ontario

Mr. Spafford joined the corporate finance department of Wood Gundy in 1976, and became director, Mergers and Acquisitions, in 1984. He has been involved in many of Canada's most significant mergers and acquisitions, as well as divestitures, take-over bids and take-over defences. He has also covered a broad range of corporate finance activities, including public and private debt and equity financings, as well as advisory assignments.

Tom Battershill [1, 2]
President, Proconex Consultants, Beaconsfield, Quebec

Mr. Battershill has 36 years' experience in the pulp and paper industry, including 28 years in the process control area. From 1976 to 1985, he was Manager, Process Systems, Consolidated Bathurst Inc. in Montreal, having previously held various positions in process control at the Company's plant in Portage du Fort, Quebec.

Roch Leblanc
President and Chief Executive Officer, Advanced Fiber Technologies (AFT) Income Fund, Sherbrooke, Quebec

Mr. Leblanc joined AFT in 1999. In 2000, he was appointed President, Forestry Systems, Pulp and Paper division, where he led the integration of the Lennoxville and Varkaus operations and subsequently the negotiation of a 35% interest in Poong Nam Screen Co., Ltd. On March 28, 2002, he was appointed President and Chief Executive Officer of AFT's newly formed Income Fund. From 1988 to 1999, Mr. Leblanc was Vice President, General Manager of Camoplast Inc. (formerly a division of Bombardier Inc.), a manufacturer of polymer products for the motorized vehicle industry.

Jim Rogers [1, 2]
Trustee, Saint-Lazare, Quebec

Mr. Rogers retired from the Pulp and Paper Research Institute of Canada (Paprican) in 2001, where he had served as Senior Vice President, Research and Education programs, for 12 years. Previously, he was Vice President and Director of the Vancouver Laboratory of Paprican.

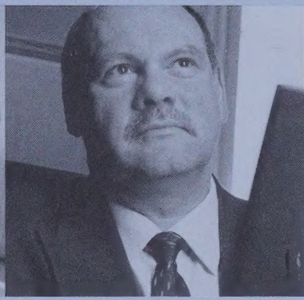
François R. Roy [*2]
Chief Financial Officer, Telemedia Corporation, Montreal, Quebec

Mr. Roy has been Chief Financial Officer of Telemedia Corporation since 2000. From 1998 to 2000, Mr. Roy was Executive Vice President and Chief Financial Officer, Quebecor Inc. From 1997 to 1998, he was Executive Vice President and Chief Financial Officer, Avenor Inc., a forest products company.

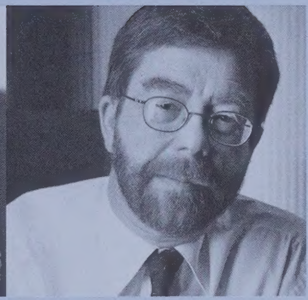
* *Committee Chairperson*
1 *Compensation and Corporate Governance Committee*
2 *Audit Committee*

Management

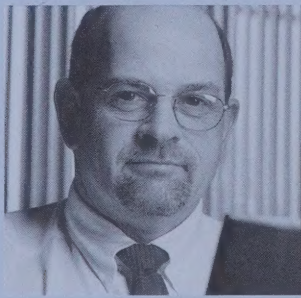
Roch Leblanc
President and
Chief Executive Officer



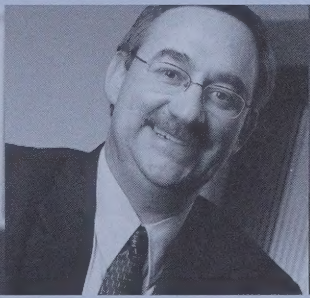
Denis Fontaine
Vice President,
Operations – Americas



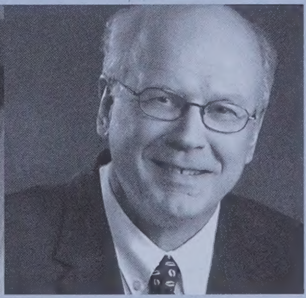
Robert W. Gooding, PhD
Vice President, Technology



Peter Maccini
Vice President,
Sales and Marketing



Normand Potvin
Chief Financial Officer
and Secretary



Kari Rautamäki
Vice President,
Operations – Europe and Asia

Investor Enquiries

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Registrar and Transfer Agent

Computershare Trust Company of Canada

Auditors

Samson Bélair Deloitte & Touche

Legal Counsel

Lavery, de Billy

Annual Meeting

The Annual Meeting
of Unitholders will be held on
April 2, 2003 at 9:00 a.m.
at the Omni Mont-Royal Hotel
Salon Printemps
1050 Sherbrooke Street West
Montreal, Quebec

Ce rapport annuel est également disponible en français.

Market Information

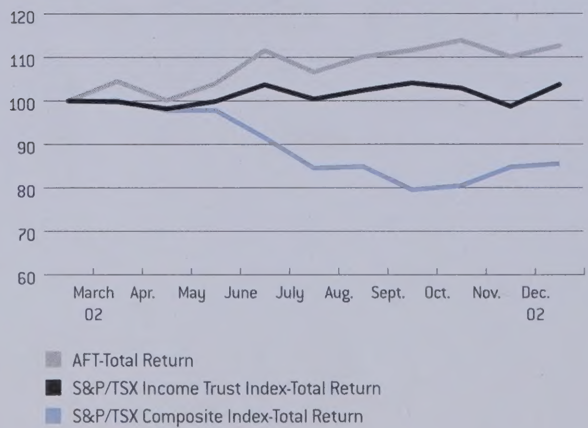
(at December 31, 2002)

Symbol: AFT.UN
Listing: TSX
IPO: March 28, 2002
Units issued: 13,083,333
Market capitalization (as at February 21, 2003):
$137,374,997
High/low: $11.00/$9.90
Recent unit price (February 21, 2003): $10.50

Cash Distributions

The distribution policy of Advanced Fiber Technology (AFT) Income Fund is to make monthly cash distributions of $0.10 per Fund unit to Unitholders of record on the last business day of each month.

AFT's Market Performance versus the S&P/TSX Income Trust and the S&P/TSX Composite Indices



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